

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE OPEN SESSION MEETING SUMMARY

MAY 15, 2006



AGENDA ITEM 5 - GLOBAL EQUITY

b. Selection of International Developed and Emerging Market Equity Managers for Spring-Fed Pools

The Committee approved seven managers for inclusion in the international developed market equity Spring-Fed Pool and four managers for inclusion in the emerging market equity Spring-Fed Pool, and approved the use of annual review contracts.

The international developed market equity managers are:

- Axa Rosenberg Investment Management
- Batterymarch Financial Management
- Fidelity Management Trust Company
- Goldman Sachs Assets Management
- PanAgora Asset Management
- State Street Global Advisors
- The Boston Company

The emerging market equity managers are:

- Batterymarch Financial Management
- Lazard Asset Management
- Pictet Asset Management
- Robeco Institutional Asset Management

c. Update on Investments in Companies Doing Business in Sudan

The Committee adopted the attached revised Position Statement regarding companies doing business in Sudan.

AGENDA ITEM 6 – GLOBAL FIXED INCOME

a. External High Yield Manager Annual Review

The Committee approved renewal of the contracts for all four of CalPERS' external high yield managers for a period of one year. The four managers are:

- Highland Capital Management L.P.
- ING Ghent Asset Management, LLC
- · Nomura Asset Management Inc.
- Pacific Investment Management Company

b. Alpha Currency Initiative

The Committee directed staff to proceed with development of a pilot program for an Internal Alpha Currency Overlay Portfolio with policy changes to be brought before the Policy Subcommittee.

AGENDA ITEM 8 – LEGISLATION

a. Assembly Bill 2941 (Koretz) - Sudan Divestment

The Chair directed staff to confer with the author of the legislation to convey CalPERS' leadership role on this issue, including the Position Statement, and to ask the author to carry the indemnification language outlined in the Position Statement, and to keep the Investment Committee apprised of developments with the legislation.

AGENDA ITEM 9 – POLICY SUBCOMMITTEE REPORT

By consent the Committee approved:

- **a.** Real Estate Policy, Revision of Global Public Real Estate Equity Securities (Global PREES)
- **b.** Alternative Investment Management (AIM) Policy, Revision of AIM Program to Revise Benchmarks

AGENDA ITEM 10 - CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT

a. Consolidated Investment Activity Report

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of March 31, 2006, was approximately \$207.1 billion and the total book value was approximately \$161.3 billion.

The next Investment Committee meeting is scheduled for June 19, 2006 in Sacramento, California.

Position Statement

- 1) The CalPERS Investment Committee is deeply concerned over the atrocities and human rights violations occurring in Sudan. CalPERS has and will continue to exercise leadership in addressing this critical issue.
- 2) CalPERS believes that companies that do business in Sudan may thereby be unwittingly furthering or condoning the egregious human rights violations that are occurring in Sudan. A company associated with the atrocities taking place in Sudan poses a serious risk to creating sustainable and responsible long-term value.
- 3) CalPERS believes that constructive engagement is the most powerful tool investors can use to effect change at those portfolio companies whose corporate governance, social, or environmental practices could lead to value destruction. Divestment is a tool that must be used sparingly; nonetheless, divestment remains an option.
- 4) No definitive list of companies doing business in Sudan currently exists. We strongly urge the Federal Government to take responsibility for publishing a list for all shareowners, because it is the one credible centralized source with the capability of understanding national security and human rights implications of company operations as well as directing appropriate prohibitions and sanctions against these companies. In June 2005, CalPERS and 49 other institutional investors formally urged the U.S. Department of State, the U.S. Department of Commerce, the U.S. Department of the Treasury, and the U.S. Securities and Exchange to provide guidance on this matter. Although the federal government has not yet provided the requested guidance, CalPERS will continue to urge them to do so.
- 5) CalPERS notes that we currently own none of the securities in the nine companies from which the Regents of the University of California voted on March 16, 2006 to divest subject to indemnification. Companies identified by UC for divestment were defined as those which were clearly shown to be providing monetary or military support to the Sudan government, while showing little or no interest in the violence in Darfur or in helping to improve the welfare of the Sudanese people. On April 6, 2006, CalSTRS approved a motion stating that "It is the intent of the Board to move forward to divest its holdings from companies identified as doing business with the Government of Sudan, taking into consideration the same general criteria utilized by the UC Regents and subject to the investment staff determining that such action would be prudent and consistent with the System's fiduciary duties and that suitable alternative investments would be available. . . . Such action would be subject to the indemnification of the Board members, consistent with the indemnification of the UC Regents."

- 6) CalPERS will not acquire any holdings in the nine companies identified for divestment by the Regents of the University of California until the government of Sudan halts the genocide, as determined by the State Department and Congress or if the United States revokes its current sanctions on Sudan, and subject to the enactment of legislation providing for the indemnification of CalPERS and individual board members, and the officers, agents, and employees of the system for all costs, liability, and losses arising from this decision.
- 7) With respect to securities we may own in additional companies identified as doing business in Sudan, CalPERS strongly believes the best course of action is a strategy of constructive engagement. This engagement is designed to understand the extent and implications of the company's presence in Sudan, determine the impact of the company on human rights in Sudan, and urge companies to work with pertinent entities to bring an end to human rights violations in Sudan.
- 8) CalPERS' constructive engagement plan is consistent with Assembly Concurrent Resolution 11 (ACR 11) (Dymally), supported by the CalPERS board and adopted by the Legislature in 2005, which encouraged CalPERS and CalSTRS, within their fiduciary responsibilities, to encourage companies in which employee retirement funds are invested that are doing business in Sudan to act responsibly and not take actions that promote or otherwise enable human rights violations in Sudan. CalPERS has and will continue to actively collaborate with other institutional investors to take advantage of our collective voice as shareowners.
- 9) Nothing in this statement should be considered as a precedent for any future actions by this system.